SPECIAL REPORT

House Democratic Policy Committee
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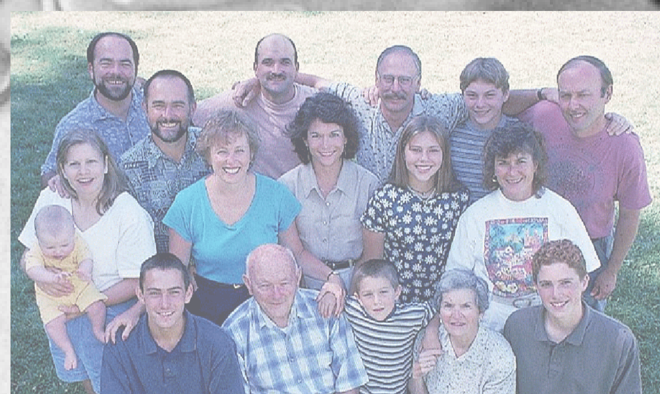
GOP CALLS FOR MASSIVE TAX "RELIEF" FOR WEALTHY

DEMOCRATS CALL FOR TARGETED



TAX RELIEF FOR WORKING FAMILIES

DEMOCRATIC
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GOP CALLS FOR MASSIVE TAX "RELIEF" FOR WEALTHY; DEMOCRATS CALL FOR TARGETED TAX RELIEF FOR WORKING FAMILIES

As this DPC Special Report will show, Republicans are calling for massive tax cuts targeted at the wealthy – whereas Democrats are calling for fiscally-responsible tax relief that is targeted to working families. In 2000, House Republicans have been bringing out a series of tax cut bills in the hope that they can fool the American people into thinking that they learned from the experience in 1999 when their $792 billion package was overwhelmingly rejected despite a public relations campaign during Congress' August recess. Even with projected budget surpluses that have grown since last year, the Republicans' massive tax breaks that primarily benefit the wealthiest Americans are low on people's priorities.

<u>Democrats support tax relief for middle-class families</u> – the people who really need tax relief – but many of the Republican tax packages give most of the tax cuts to the wealthy and little to middle- and lower-income families. Democrats have offered alternatives that are fiscally responsible and fit into the overall budget framework that pays down the debt by 2013, provides a universal prescription drug benefit for Medicare, strengthens the Medicare Trust Fund and allocates enough money for appropriated programs to keep up with inflation. Further, the Democratic alternatives have provided more tax relief to the people who need it most at a lower cost than the Republican bills

This year the Republican budget resolution proposed $150 billion in tax cuts with an allowance for an additional $25 billion over five years, for a total of $175 billion. By comparison, the 1999 Republican tax bill spent only $156 billion over the first five years. Since the American people repudiated their massive tax bill in August 1999, House Republicans have brought to the House or reported from the Ways and Means Committee tax cut bills that total $258 billion over five years and $750 billion over ten years. Including the additional interest costs on these tax cuts brings the total amount of the surplus spent to $2857 billion in the first five years and $940 billion over ten years.

The tax cuts considered to date are only the beginning. It will be necessary to provide for the extension of numerous expiring tax credits (e.g.: the R&D credit, Work Opportunity credit, Welfare-to-Work credit and others) beginning next year. Further, it is generally acknowledged that significant changes will have to be made to the Individual Alternative Minimum Tax to keep middle-income families with children from having to pay it. The combination of these tax cuts that will have to be passed within the next year costs at least $93 billion over the next ten years.

Comparing the 1999 and 2000 Republican Tax Cuts

The similarity of the failed 1999 Republican tax package and the piecemeal 2000 Republican tax bills is striking. Although some components are different, the total size is nearly the same and the bias to giving tax breaks to the wealthy is identical in 2000.

As shown in the first two charts in this report, the bill that President Clinton vetoed in 1999 cost $792 billion over ten years, excluding additional interest costs, and the cumulative cost of the Republican bills considered by the House through July 2000 totals $750 billion over ten years.

Although the projected budget surpluses have increased substantially since 1999, the $940 billion cost of the Republican tax cuts (including additional interest) would still crowd out higher priority uses of the surpluses: extending the solvency of Social Security and Medicare, providing a real Medicare prescription medicine benefit and funding improvements in education to name only the top of the list.

In 1999, most of the tax cuts in the vetoed Republican proposal benefitted high-income taxpayers, not average families. More than half of the money would have gone into the pockets of the top 5 percent of taxpayers, but less than ten percent of the massive tax cuts would have benefitted the 60 percent of American families with incomes less than $39,300.

The second chart shows that nothing has changed; the distribution of tax cuts in 2000 is identical to that of the 1999 tax cuts. While House Republicans have couched their tax cut message in a way that appeals to middle class families, their actions speak just as loudly as they did in the past that Republicans are more interested in the economic well-being of their wealthy supporters than they are about families who are trying to make ends meet.

The Republican Tax Cuts in 2000

The Republican tax cuts are fiscally irresponsible. The $750 billion revenue cost of the Republican tax bills during the next ten years is only the tip of the iceberg. These cuts are phased in so slowly that the true cost is only apparent after the end of the period. The marriage penalty bill that was sent to President Clinton to be vetoed is typical; the cost in the first five years is $110 billion, but the cost in the second five years jumps to $182 billion, with a tenth year cost of $38.5 billion. That means that the cost in the second ten years would be over $450 billion.

The estate tax repeal is the worst case of exploding tax cuts outside the current budget window. Although the Republicans advertise a cost of $105 billion in the first ten years, the full repeal is not effective until the tenth year and the revenue loss is pushed into the eleventh year. The annual revenue cost explodes to $50 billion starting in the eleventh year, and the second ten year cost has been estimated to be $750 billion.

It should be remembered that these tax cuts are <u>permanent</u>; once they have been enacted, the drain on the projected surpluses is automatic. This permanently forecloses using $940 billion for debt reduction, strengthening the solvency of Social Security and Medicare, providing a real Medicare prescription medicine benefit and improving public education with the money.

Further, while the tax cuts are permanent, the surpluses are merely <u>projections</u>. They are based on uncertain projections that can, and will, change. A good example is the recent revisions to the projections made by CBO. The ten year projections changed by $1.3 trillion in the last six months due to changes in the economic and technical assumptions.

The sources of uncertainty in budget projections are numerous: economic growth and interest rates, the performance of the stock market, general inflation and the rate of inflation for medical services, the utilization of medical services and the impact that has on federal spending on Medicare and Medicaid are just a few major assumptions that will have a significant impact on the budget. In the past several years, these factors have all had a favorable impact, increasing revenues faster than outlays, but a reversal of this pattern can not, and should not be ruled out. Committing more than half of the projected on-budget surpluses to tax cuts without first setting aside enough budgetary resources for higher priority uses is irresponsible.

The distribution of the tax cuts is unfair. The Republican tax bills give the lion's share of tax relief to the affluent, according to an analysis of the bills by the nonpartisan group Citizens for Tax Justice. This study found that the top 5 percent of families – those with incomes over $130,000 – would get 57.8 percent of all of the tax cuts proposed so far by Congressional Republicans, while families in the lower 60 percent of the income scale would get only 8.9 percent of the tax cuts.

In terms of the actual tax cuts that a family would see at the end of a year, that translates into only $131 per year for a family in the middle of the income distribution with an income of $31,100. However, at the highest rung of the economic ladder, a family in the top 5 percent with an income of $183,000 would benefit from a tax cut of $1,944 each year. And, of course, those few fortunate enough to be at the very pinnacle, in the top 1 percent, with incomes over $319,000 who would also get the most benefit from the repeal of the estate and gift tax get a tax cut of $23,119.

Here is a rundown of the major Republican tax bills that have passed the House through the end of July:

Marriage Penalty Relief (H.R. 4810, Conference Report) - This bill spends $110 billion in the first five years and $292 billion over ten years. Despite its appealing name, more than half of the tax cuts would benefit couples who not only do not pay a "marriage penalty", but actually get "marriage bonuses". In addition, the Republican bill actually allows many couples to be denied tax relief because of the interaction between the Alternative Minimum Tax with the increase in the standard deduction in the bill. The analysis of the bill by Citizens for Tax Justice found that about half of the total tax cuts would benefit the top 10 percent of couples who have incomes over $92,500 and that the average tax cut for families with incomes of $50,000 would be about $110 per year.

Estate Tax Repeal (H.R. 8) - This bill phases out the estate tax over the next ten years to hide the true cost of repeal. By definition, it benefits only those wealthy enough to be subject to the estate tax – fewer than 2 percent of all Americans pay any federal estate tax at all. The cost in the first five years is only $28 billion, but the ten year cost is $105 billion, and the revenue lost in the second ten years could be over $500 billion. Democrats in both the House and Senate proposed reforms of the estate tax that were less costly and provided more immediate relief for family-owned farms and small businesses, but Congressional Republicans were so anxious for a campaign issue that they refused any offers of bipartisanship and insisted in sending this flawed and irresponsible bill to the President for a veto. They prevented true estate tax reform and relief from being enacted.

Private Pensions and IRA Tax Breaks (H.R. 1102 and H.R. 4843) - This bill makes numerous changes in the limits on tax-exempt contributions to private pension plans; it also increases the annual contribution to both traditional and Roth IRAs from $2,000 per year to $5,000 per year. The total cost of the tax cuts is $17 billion in the first five years and $54 billion over ten years. While many of the changes affecting private pension plans are controversial, the greatest failing of the bill is that it does little to encourage retirement saving by lower- and moderate-income workers. These are the people who are not currently saving enough, mainly because they have to use virtually all of their income on everyday living expenses. Democrats offered the President's proposed Retirement Saving Accounts that would have given a refundable tax credit as the Federal Government's contribution to a qualified retirement account, but House Republicans rejected it.

Repeal of 1993 Second Tier of Taxation of Social Security Benefits (H.R. 4865) - This bill will be marked up in the Ways and Means Committee and brought to the full House for a vote by the end of July. While it is estimated to cost $44 billion over five years and $110 billion over ten years, the most important fact is that <u>the revenue lost will all come out of the Medicare Trust Fund</u>. Even if the Republicans attempt make up that loss by taking money out of the projected and uncertain general fund surpluses, it will just be maintaining what is already in current law. In fact, it will come at the expense of using the money to provide a universal prescription medicine benefit within Medicare and strengthening the Trust Fund to keep it solvent through at least 2030. Further, it will not benefit the average senior citizen who depends on Social Security for most of his or her income. Like the rest of the Republican tax cuts, the benefits will go only to about 18 percent of the most affluent seniors. For example, a couple with total income of $50,000 would get a tax cut of only $128 dollars, while a couple with an income of $90,000 would benefit from a tax cut of $1,470. (Source: Congressional Research Service)

Small Business and Estate Tax Cuts (H.R. 3832) - This bill was passed as the companion to the increase in the minimum wage that Democrats forced the Republican leadership to bring to the House. The Republicans loaded $122 billion of tax cuts into this bill that was originally intended to help small businesses offset the increase in costs associated with an increase in the minimum wage. However, these tax cuts go far beyond the appropriate amount and concentrate the benefits to the wealthy rather than small businesses. The driving force behind the bill was the estate tax break for America's richest families. However, both the estate tax repeal and the private pension plan tax breaks have been split off, leaving about $26 billion in tax cuts over ten years. According to Citizens for Tax Justice, half of these remaining tax cuts will benefit the top 1 percent.

Health Insurance Access Provisions of H.R. 2990 - Like the Democratic minimum wage increase bill, the Patients' Bill of Rights acquired a Republican set of tax cuts targeted to the wealthy during House consideration. In the case of the Patients' Bill of Rights the tax cuts total $13 billion over five years and $69 billion over ten years. This package contains an expansion of the availability of the Republicans' Medical Savings Accounts that have not been notably successful, but the largest component is a new deduction for the purchase of health insurance by taxpayers who pay at least 50 percent of the premiums. Over ten years this accounts for $48 billion of the $69 billion cost.

While the deduction appears to be attractive on the surface, it will do little to help the vast majority of uninsured people and their families afford health insurance. An analysis by the Center on Budget and Policy Priorities found that 93 percent of those who lack health insurance either pay no income tax (in which case a tax incentive gives them nothing at all) or are in the 15 percent bracket (so the deduction is only worth $.15 for each $1.00 they spend, they have to pay the other 85 percent out of pocket). Middle-class families whose employers currently pay more than half of the cost of health insurance could find themselves actually paying more if employers scale back their contributions, according to the Center analysis. Finally, although there are few high-income families without insurance, a significant number buy it themselves. The deduction is worth much more to them than to low-income taxpayers (up to 2½ times as much for those in the top bracket), so that those who need the help least could end up getting the largest share of the tax benefit.

Democratic Tax Cut Proposals for Middle-Class Families

By contrast to the Republican tax cut agenda, the Democratic tax cut agenda is designed to give tax relief to those average families who need most in a fiscally responsible package. The components have all been offered by House Democrats as alternatives to the Republican bills or have been included in the Families First Agenda. These bills generally provide more tax cuts to the people they are supposed to be helping than the Republican bills:

- The Democratic marriage penalty relief proposal gave $10 billion more in marriage penalty relief to couples burdened with it than the Republican bill did. But the Democratic bill cost about half as much as the Republican one because it was focused on the problem, not designed to give big tax breaks to the highest-income couples even if they did not suffer the marriage tax penalty.

- The Democratic estate tax relief bill gave <u>immediate</u> tax cuts to family-owned small businesses and farms, an <u>immediate</u> 20 percent cut in all rates and <u>immediate</u> relief for the smallest estates. The Republican bill gave the earliest tax cuts to the largest estates, while the tax relief for smaller estates would have lagged behind the Democratic alternative for six years.

- The Democratic Retirement Savings Account proposal would give more tax cuts to low- and moderate-income workers who need the most help to save for retirement.

- Democrats have addressed needs that Republicans have ignored: long-term health care for elderly parents, child-care for working families, and help paying for a college education.

Republican Tax Cuts Passed by the House or reported by the Ways and Means Committee

(billions of dollars)

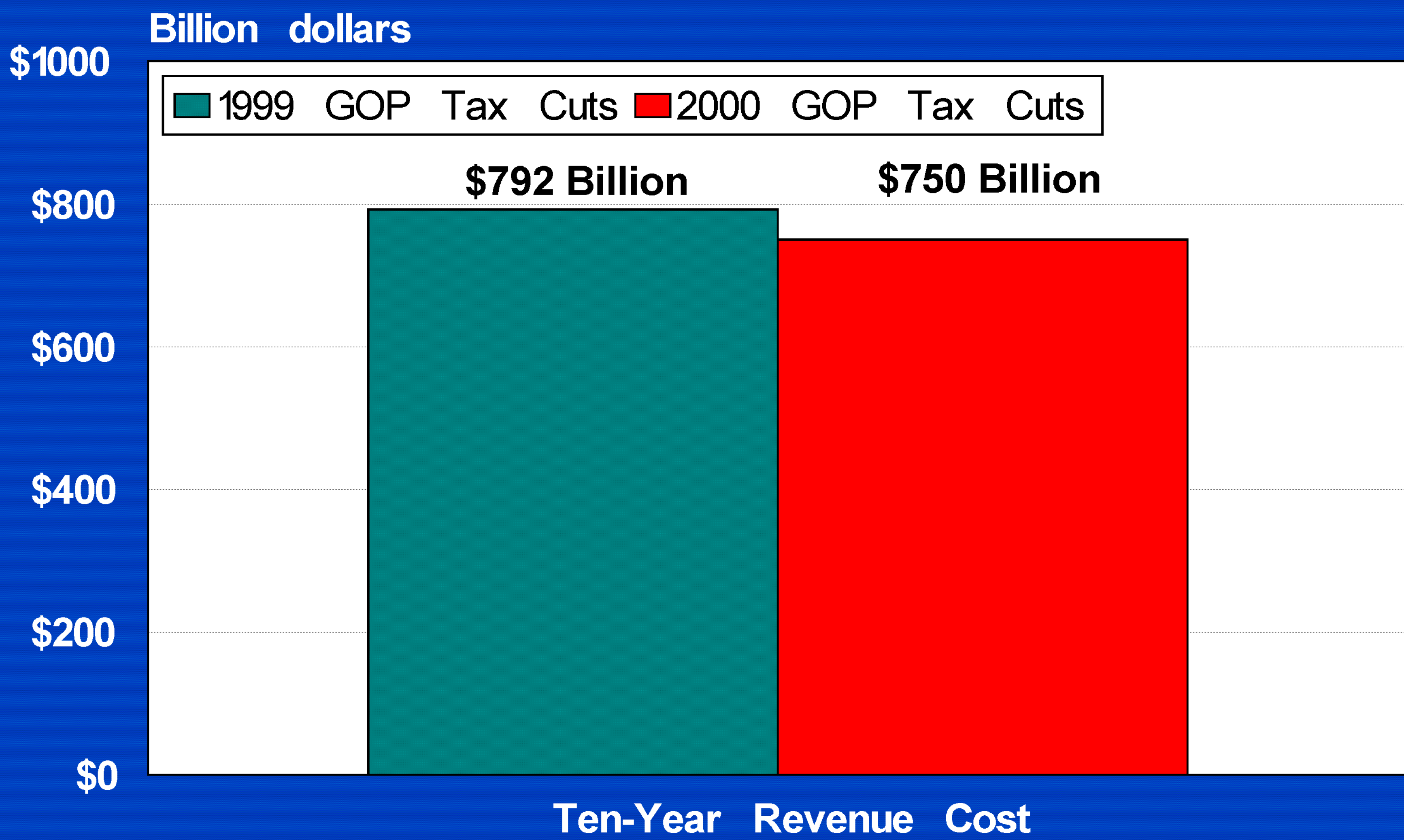
	Five Year Cost	Ten Year Cost
Marriage Penalty - H.R. 4810 (conference report)	$110	$292
Estate tax repeal - H.R. 8 (sent to President)	$28	$105
IRA expansion - H.R. 1102 and H.R. 4843	$17	$54
Repeal 1993 taxation of benefits - H.R. 4865	$45	$116
New Markets/Community renewal (net cost)	$6	$17
Small Business and estate tax - H.R. 3832	$45	$122
Health Insurance access - H.R. 2990 (in conference)	$13	$69
Telephone Excise tax repeal - H.R. 3916	$20	$51
Other tax bills passed by the House (H.R. 4163 and H.R. 434)	$5	$11
Education Savings Accounts - H.R. 7 (reported by Ways and Means)	$4	$12
less: duplicate items	$35	$99
Total Tax Cuts	**$258**	**$750**
plus: additional interest cost	$27	$190
Total Cost of Tax Bills	**$285**	**$940**

Democratic Targeted Tax Cuts for Middle-Class Families

(billions of dollars)

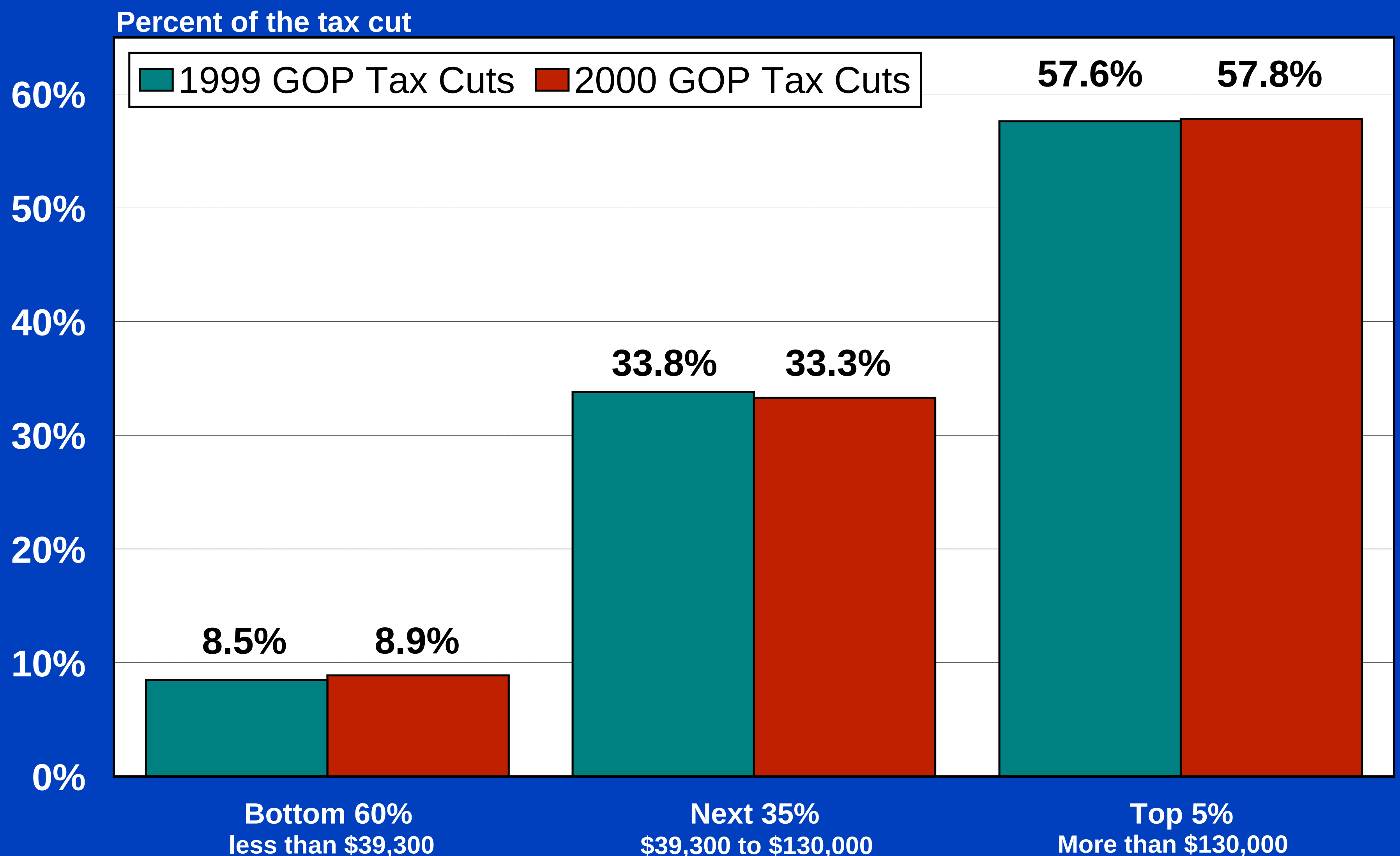
	10-Year Tax Cut Total
Targeted Tax Cuts for Families:	$55
Long-Term Care Credit	
Health Insurance Coverage Tax Credits	
Expansion of Dependent Care Credit for child care	
Education Tax Benefits and School Construction	$12
Marriage Penalty Tax Relief	$95
Tax Cuts to Help People Save for Retirement	$35
Expansion of the Earned Income Tax Credit for Working Families	$26
Estate Tax Relief Targeted to Family-Owned Businesses and Farms	$22
Community Development Tax Incentives (including New Markets)	$19
Small Business Tax Cuts and Extensions of Expiring Tax Benefits	$110
Total Tax Cuts	**$375**

Republican Tax Cuts in 2000 are the Same Size as they were in 1999



Source: Joint Committee on Taxation

Distribution of the Republican Tax Cuts: Same in 2000 as it was in 1999

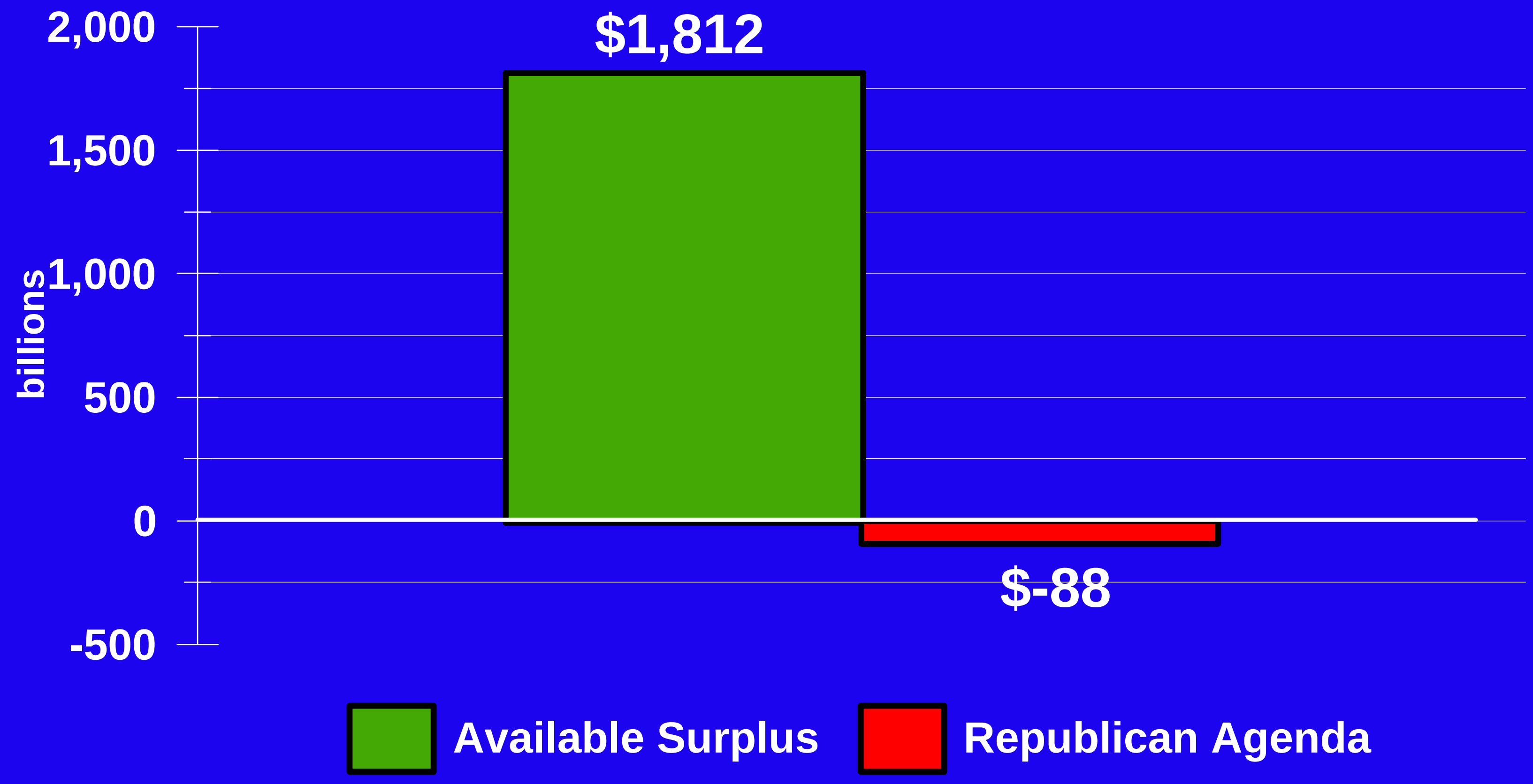


Source: 1999: ***Citizens for Tax Justice*** analysis of conference report on H.R. 2488, August 5, 1999

2000: ***Citizens for Tax Justice*****,** Includes marriage penalty, estate tax repeal,IRA expansion and pension reform and telephone excise tax repeal, July 17, 2000.

Nothing Is Left

Republicans use all the 10-yr. surplus



The Republican Agenda Produces Deficits

10-year totals in billions of dollars

	2001-2010
Available Surplus, CBO July estimate*	1,812
Republican Agenda:	
Current and anticipated tax cuts	922
Realistic spending projections	602
Debt service	376
Subtotal, Republican Agenda	1,900
Resulting Deficit (-) *	**-88**

** excludes Social Security and Medicare surpluses*
(Ten-year Medicare surplus is $361 billion)

Republican Agenda Produces Deficits

Billions of Dollars, CBO Estimates

	2001-2010
CBO July Projection of Non-Social Security Surplus	**2,173**
Reserve Medicare HI Surplus	361
Tax Cuts	
Tax Cuts Thus Far	739
Future Tax Cuts (Fix AMT, Extend Popular Expiring Credits)	183
Realistic Spending Projections	
Projection of Appropriations Based on Growth from 1995 to 2001	284
Mandatory Spending Increases to Date, Excluding Prescription Drugs	54
Republican Prescription Drug Benefit	159
Maintain Farm Assistance at Recent Levels	65
Medicare Provider Restorations	40
Additional Interest Payments on Publicly Held Debt	376
Subtotal	2,261
Surplus Available for: Improving Prescription Drug Benefit, Debt Reduction, and Social Security and Medicare Solvency	**-88**

Source: House Budget Committee Democratic Staff